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SUBJECT: TURKEY: MINISTER GULER IN TEHRAN TO TRY TO CLOSE  
GAS DEAL.

REF: ANKARA 1761

Classified By: Economic Counselor Dale Eppler for reasons 1.4 (B) and (D)

¶1. (C) On November 15, a delegation led by Turkish Energy Minister Guler went to Tehran to try to conclude negotiations begun in July 2007 to develop natural gas in Iran's large South Pars field and to construct a dedicated pipeline to bring Iranian gas to Turkey (reftel). The delegation also includes BOTAS (state pipeline company) Chairman Saltuk Duzyol, TPAO (state oil company) Chairman Mehmet Uysal and AKP Parliamentarian Taner Yildiz, Prime Minister Erdogan's informal advisor on energy.

¶2. (C) According to Faruk Demir, an informal advisor to Guler, the team will stay in Iran through November 19 and will likely sign a new agreement, but gave few details. He said a sticking point continues to be Iran's "buy back model" for gas development, in which Turkey would be obliged to sell gas developed in the South Pars field to the GOI at a (very low) price set by the GOI but would be required to pay Iran "international market prices" for gas exported to Turkey or markets beyond. Effectively, such a deal would be a money loser for Turkey. Demir said TPAO, which has been conducting the negotiations with Iran, opposes the buyback model and advised the Minister not to travel to Iran yet. However, Guler advisor Musa Gunaydin urged Guler to go to Tehran and conclude an agreement. (Note: Gunaydin is reportedly close to an unnamed business with close ties to the PM that has financial interests in an Iran gas deal. End note.)

¶3. (C) We also spoke with MFA Energy Department Head Berris Ekinici about her expectations for Guler's Iran trip. Ekinici stressed the difficulty of raising financing in today's global climate. She estimated the cost of the deal to be as much as USD 7 billion and speculated that nothing could move forward without financing despite any agreements Guler may reach. Demir also said TPAO would not have the funds available to invest in Iran because its share in Azerbaijan's Shah Deniz Phase II development would run about USD 2 billion.

¶4. (C) Comment: We know very few details about the ongoing negotiations in Iran and will continue to seek more information. Minister Guler has said for months that he would go to Tehran only when an agreement was ready, so his personal involvement in the 4-day negotiations indicates

closing a deal with Iran is a priority for him. Guler may believe an agreement with Iran will give him a much-needed domestic success story and increases his negotiating leverage with other gas suppliers like Russia and Azerbaijan. He is under considerable political pressure at home. He has long been rumored to be on his way out to be replaced by Taner Yildiz, the parliamentarian who is on the trip with him. This year, the Ministry has allowed large and unpopular utility rate increases (electricity up by more than 60% and natural gas by more than 70%). An opposition political party recently filed a censure motion against Guler, claiming incompetence for the utility price increases while world prices for oil and gas are falling.

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